

# **“Foreign-Trade Zones: A Home Run for Economic Development”**

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# FTZs and U.S. Trade Policy



- U.S. trade policy important for U.S. growth
- FTZ program important tool of U.S. trade policy
- White House Statement of Feb. 17, 2012:
  - “A Simplified Process for Foreign-Trade Zones”
  - FTZs “help encourage manufacturing and investment in the US, in industries including automotive machinery and equipment and pharmaceuticals.”
  - “These simplifications will contribute to the National Export Initiative goal to double exports by the end of 2014 and the Administration’s goal of attracting and retaining manufacturing activity and manufacturing jobs in the United States.”



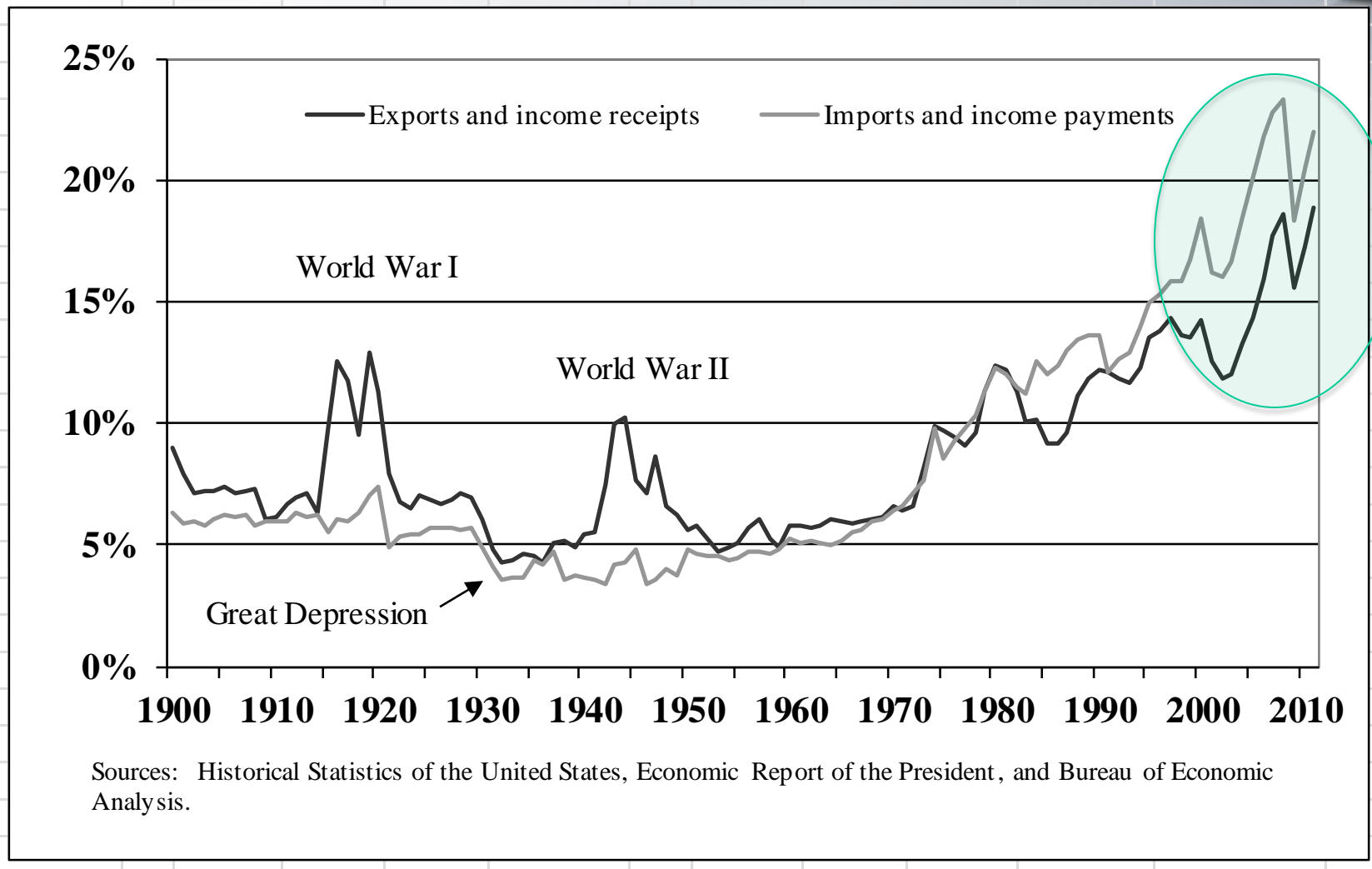
# FTZ Program Poised for Growth



- Streamlined procedures and growing trade volumes
- Three-quarters of world's spending power outside the United States
- U.S. economy more globalized than ever through trade and foreign investment
- U.S. exports in 2011 at record high 18.8% of GDP



# America's Growing Globalization



# National Export Initiative

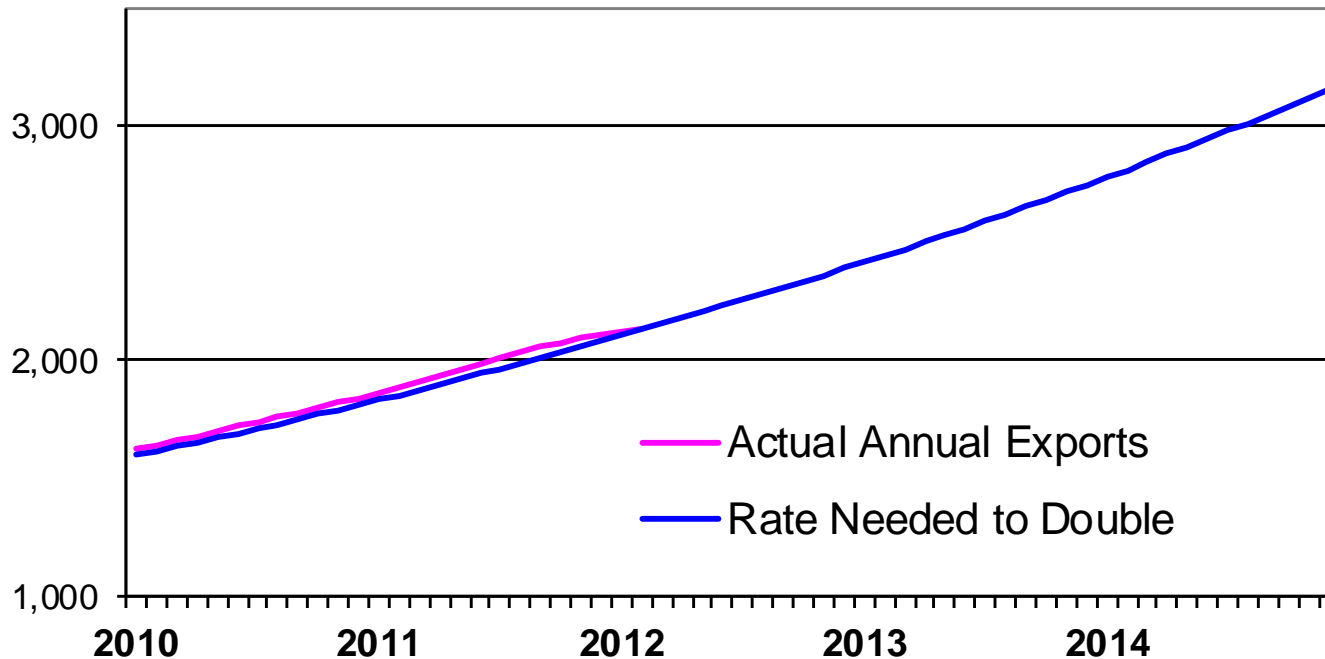


- Exports fuel economies of scale, R&D, creation of jobs that pay 15-18% above average
- White House statement, March 13, 2012:  
“The President’s goal of doubling exports by the end of 2014 is on track, with exports increasing almost 16% last year to \$2.1 trillion.”
- But growth will be tough to maintain
- Export growth has averaged 6.5% annually since 1980, less than half the 14.9% rate needed to double in five years

# National Export Initiative



## Are U.S. Exports "On Track" to Double by 2014?



Note: Value of U.S. exports of goods and services, in \$billions.  
2010 exports annualized; other years previous 12 months.

# Promoting Exports, and Imports



- Pass Russia PNTR, avoid sanctions, pursue TPP, revive Doha round
- Set a good example by keeping our market open
- Export success depends on imports
- More than half of US imports are raw materials, component parts, and capital machinery used by business to create final products
- Typical U.S. export contains 11% foreign components.
- Important industries cannot compete globally without foreign-sourced inputs

# A Brief History of FTZ Program



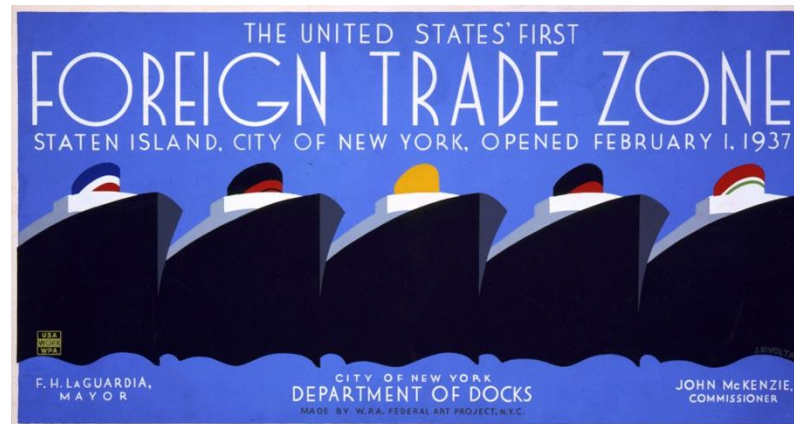
- FTZ program offers U.S. producers equal access to global resources
- Foreign-Trade Zones Act of 1934 intended to “expedite and encourage foreign commerce, and other purposes.”
- Program expanded in 1950 to include manufacturing
- After 1980, only foreign inputs dutiable
- Further expansion for oil refining, production equipment, small manufacturers, automation, ASF



# Public Policy Objective of Zones



- Preamble to 2012 FTZ Board Regulations:
- “Zones have as their public policy objective the creation and maintenance of employment through the encouragement of operations in the United States which, *for customs reasons*, might otherwise have been carried on abroad.”



# How an FTZ Operates



- Secure areas near Port of Entry
- Foreign goods admitted to zone considered outside U.S. customs territory. Customs collects duties only when goods enter U.S. commerce
- All U.S. laws apply re: labor, health, safety, but considered international commerce for tariff purposes
- General Purpose Zones, subzones, and ASF
  - In FTZ, merchandise may be: exhibited, cleaned, relabeled, repackaged, repaired, stored, tested, assembled, manufactured, destroyed

# FTZs Reduce Costs/Move Trade



- **Duty Reduction** (inverted tariff relief) for manufacturing zones only
- **Duty Elimination** on Exports & Scrap
- **Duty Deferral** on Inventory
- **State and Local Ad Valorem Tax** Exemption on inventory tax (federal law)
- **Administrative savings and expedited flow** due to flexible Customs procedures, consolidated weekly entry reporting, reduced brokerage and government fees

# Key Facts of U.S. FTZ Program



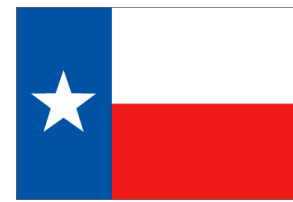
- 250 zones, 350 subzones in all 50 states and P.R.
- In 2010, more than half a \$ trillion of merchandise admitted to FTZs, 58% sourced domestically
- \$35 billion exported, up 23% from year before, faster than overall export growth
- 2,400 companies operate in FTZs.
- 320,000 U.S. residents employed in FTZ or subzone
- Major industries that use zones: petro-chemical, automotive, electronics, pharmaceutical, clothing footwear, cosmetics, machinery

# Exhibit A: Global Auto Sector



- International automotive sector one of most active users of FTZ program
- BMW in SC, Nissan in TN, Hyundai and Mercedes-Benz in AL, Honda in OH, Toyota in W.Va.
- In 2010, combined \$45b in merchandise received, \$11b exported
- Most export-intensive sector: 10% of zone admissions, almost a third of exports
- BMW subzone 38A exported \$5b in 2011, 70% of its production!

# The FTZ Story in Texas



- Texas FTZs received \$161b in merchandise in 2010, ranking 1st among states
- Texas FTZ exports up 31% to \$7.2b
- 33 zones and 46 subzones across the state
- 393 companies, employing 51,085 workers
- Major subzone users include oil refineries, Michelin North America, Dell Computer, Samsung Semiconductor
- El Paso FTZ # 68 is nation's top-exporting GPZ at \$1.7b in 2010

# Questions & Answers

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